

Financial Digest

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Analysis of
Business
Trends Plus
Selected
Financial
Indicators

Icing On The Cake?

As if the recession-wary American worker didn't have enough to worry about, the announcement of a comprehensive free trade agreement reached by the United States, Canada and Mexico has ignited fears of a wholesale migration of high-paying U.S. factory jobs to low-wage Mexico. For with the Mexican economy in the midst of a pronounced revitalization and sweeping regulatory reform, the likelihood of the long-discussed North American Free Trade Agreement (NAFTA) becoming a reality may well be the icing on the cake which prompts numerous U.S. companies to redirect investment spending from here to there and relocate manufacturing operations south of the border.

But while some of this may happen, whether or not NAFTA ultimately entails a significant, or even any net, loss of domestic jobs is highly uncertain. Lower wages in Mexico are often accompanied by lower productivity, a distinct disadvantage to many firms considering relocation. What is more, since most Mexican products entering this country already face negligible duties, rather than the tangled web of quotas and tariffs which confronts many U.S. products sold in Mexico, the removal of existing trade impediments may well benefit U.S. exporters to a greater extent than their Mexican counterparts. And, with Mexico poised to eclipse Japan as our second largest trading partner, less fettered access to fast-growing Mexico should translate into more sales, profits and jobs here.

Although the nascent trade pact still requires the legislative approval of all three nations, it culminates 14 months of negotiations designed to fuse together a free trade zone stretching from the Arctic Circle to the Yucatan. For the United States and Canada, it shifts to the south the borders of their 1988 free trade agreement and extends somewhat belated recognition to the growing importance of Mexico in regional trade flows. But for Mexico, the pact entails much more than potential business benefits. It confers a seal of approval on Mexico's three-year burst of economic growth, liberalization and privatization of subsidy-gobbling state industries (Financial Digest—June 15, 1992), all

of which not only laid the groundwork for NAFTA participation but swept away some of the painful memories of the debt-plagued 1980s.

Export Bonanza

If NAFTA represents a symbolic rite of passage for Mexico away from the stagnation of the past to the dynamism of the future, it holds out the promise of a business bonanza for U.S. exports. With Europe mired in a prolonged period of economic stagnation and the Japanese economy slowing to a crawl, U.S. exporters have been turning their sights toward Mexico for years. Paced by a surge in capital goods exports ranging from construction machinery to telecommunications equipment to agricultural machinery, U.S. exports to Mexico have nearly tripled in the past five years alone, swelling from nearly \$12½ billion in 1986 to \$33½ billion last year. Nor is the boom over yet. During the first six months of this year, U.S. exports were running at a better than \$40 billion annual pace; nearly one-fifth of every \$1 of export growth over the past year was accounted for by Mexico. The growth of sales to Mexico is now far outpacing the growth of exports elsewhere—transforming a once-chronic U.S. trade deficit with our southern neighbor into a \$3 billion trade surplus during the first half of this year.

The preferential trading relationship which is the heart of NAFTA should both solidify recent U.S. trade gains as well as promise new ones. With existing tariffs slated to be phased out over the next 15 years, and Mexican duties on U.S. goods generally averaging 2½ times those we impose on Mexican products, trade liberalization favors even deeper U.S. penetration of Mexico's product markets. Among the beneficiaries will be computer manufacturers who now face lofty 20 percent tariffs on their products, apparel producers who will welcome lower duties and stiff rules of origin in order for such products to qualify for preferential treatment and corn and wheat growers who will harvest the advantages arising from the elimination of Mexico's strict licensing requirements. Service industries, too, will have a shot at new opportunities. While banks, insurance companies and securities firms get the lion's share of the publicity since they will be allowed freer access to the once highly-protected Mexican financial

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services market, benefits will also accrue to the trucking companies that will be permitted to carry international cargo throughout Mexico by the end of this decade and the railroads that will be able to provide service to that country.

Job Anxiety

But if the business community senses opportunity, some segments of organized labor see danger. The naysayers have pointedly focused on the potential loss of employment which might accompany the relocation of generally labor-intensive, low-skill production operations to Mexico and have virtually ignored the estimated

700,000 goods-producing jobs supported by the existing level of U.S. exports to Mexico. While this may seem one-sided—if not short-sighted—there is some substance behind the job anxiety. While factory employment in this country has stood virtually still over the past 20 years, Mexico has created more than 500,000 new factory jobs since the late 1960s. Nor would this feat have been possible in the absence of hefty investments by U.S. nonfinancial companies in manufacturing operations in Mexico. The book value of U.S. direct investment in Mexico has ballooned in recent years—rising from \$4.9 billion in 1987 to nearly

Short Term Paper Outstanding (Millions of Dollars)

Time Deposits \$100,000 or more Weekly Reporting Banks	Latest Week	Change Week Ago	Since Year Ago
Nationwide (8/5/92)	138,591	+	413
New York City (8/12/92)	25,910	-	188
Commercial Paper (8/12/92)	538,486	+	110
			4,077

Bank Loans (Millions of Dollars)

Commercial and Industrial Loans			
Weekly Reporting Large Commercial Banks	Latest Week	Change Week Ago	Since Year Ago
Nationwide (8/5/92)	277,941	+	1,474
New York City (8/12/92)	48,781	-	75
Total Loans and Leases Gross Adjusted			
	Latest Week	Change Week Ago	Since Year Ago
Nationwide (8/5/92)	985,154	+	979
New York City (8/12/92)	155,713	-	346

Financial Markets

	Friday 8/21/92	Week Ago	Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	3.13%	+	.01
180-Day Bills†	3.22	-	.02
Longest Bills†	3.41	-0-	2.40
Recent Issues:			
4½s 7/31/94	4.08	-	.02
5½s 7/31/97	5.51	-	.02
7½s 5/15/02	6.53	-	.01
8s 11/15/21	7.37	-	.02
Municipals:			
Bond Buyer—20 Bond Index* (8/20/92)	6.21%	-	.16
Blue List Total (\$ Million)	\$1,854	+	\$ 382
30-Day Visible Supply (\$ Million)	\$5,973	+	\$1,138
Total	\$7,827	+	\$1,520
Corporates:			
Moody's Aa Composite (8/20/92)	8.19%	-	.01
30-Day Visible Supply (\$ Million)	\$1,350	+	\$ 135
Stocks:			
Dow-Jones Averages:			
Industrials	3,254.10	-	74.84
Transportation	1,237.55	-	19.73
Utilities	220.77	+	1.44
65 Stocks	1,139.77	-	18.47
N.Y.S.E. Composite Index	228.63	-	2.43
N.Y.S.E. Avg. Daily Vol. for Week (000's)	152,594	-	16,113

*34% Taxable equivalent 9.41%.

† Bond equivalent.

International Rates

	Friday 8/21/92	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	3.38%	3.31%
1 month	3.44	3.38
3 month	3.44	3.44
6 month	3.50	3.50
1 year	3.63	3.69
FOREIGN EXCHANGE SPOT RATES		
New York Opening (8/21/92)	Currency Per U.S. \$	Week Ago
Belgium	29.89	30.08
Canada	1.1920	1.1916
France	4.1950	4.9575
Germany	1.4514	1.4655
Italy	1102.99	1108.98
Japan	126.52	126.07
Mexico	3083.00	3111.00
Netherlands	1.6345	1.6450
South Korea	791.30	787.29
Switzerland	1.2870	1.3225
Taiwan	24.93	24.88
U.K.*	1.9370	1.9300

*U.S. \$ per U.K. pound

	Change Since Week Ago	2/27/85
CHEM TRADE- WEIGHTED DOLLAR (8/21/92)	-3.3%	-21.3%
(Adjusted for inflation)		

\$12 billion at the end of last year.

Nonetheless, the past may be a faulty guide to the future, and fears of sizeable U.S. jobs losses in the wake of freer trade seem ill-founded. For one thing, there just aren't that many low-skill, low wage factory jobs around anymore. In the goods-producing industries, the trend is either toward the production of high-technology goods by an increasingly skilled workforce or, for the output of more mundane products, the utilization of increasingly sophisticated equipment by fewer, yet more productive workers. While some higher-paying factory jobs in a few

industries may be at risk, their loss is by no means a sure bet when you consider the wide disparity in U.S.-Mexican productivity levels. For another, even in such industries as textiles, apparel and agriculture where lower wage scales typically prevail, the irony of NAFTA is that lower tariffs and enhanced access to Mexican markets may actually produce more, not fewer jobs. And, finally, a buoyant Mexican economy may stanch the flow of Mexican workers to this country or even lure countless others back home, expanding, rather than diminishing entry-level opportunities in such states as California and Texas.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 8/19/92	\$ Change Since Week Ago Year Ago	
Reserve Bank Credit			
U.S. Gov'ts and Agencies			
Owned Outright & RPs	284.436	+ 2.439	+26.125
Loans to Depository Inst.	268	+ .038	- .487
Float	811	+ .420	+ .228
Total Reserve Bank Credit	317.056	+ 2.211	+24.853
Treasury Deposits with			
Federal Reserve Banks	5.291	- .153	+ .153
Currency in Circulation	316.374	+ .094	+22.370
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	296.114	+ 2.751	+45.970
Member Bank Reserves:	8/19/92		
Total Reserves Held	50.321	+ 1.272	- .656
Excess (Deficiency)	837	- .086	- .224
Net Free Reserves	588	- .094	- .075

Monetary Aggregates †

		‡ % Change Since 3 Months Ago* Year Ago	
M1 (8/10/92)	972.2	+ 7.2	+ 11.9
M2 (8/10/92)	3,467.5	- 1.4	+ 1.6
M3 (8/10/92)	4,162.5	- 2.0	+ 0.1
Domestic Nonfinancial Debt (1st Q'92)	11,304.3	+ 3.9	+ 4.5

† Seasonally adjusted.

* Seasonally adjusted annual rate.

‡ Four-week moving average.

New York Money Market

Offering Rates 8/7/92	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	3.09%	3.16%	3.28%
* Federal Agencies	3.15	3.25	3.35
* Municipal Notes—High Grade (34% Taxable Equivalent)	4.24	4.39	4.55
Negotiable Time CDs			
Chemical	Rates By Arrangement		
* Secondary Market—Prime	3.38	3.46	3.62
‡ Finance Company Paper—Prime	‡* Bankers' Acceptances		
5- 14 days	3.25%	Sep.	3.20%
15- 29 days	3.25	Oct.	3.20
30- 59 days	3.25	Nov.	3.20
60- 89 days	3.25	Dec.	3.20
90-179 days	3.25	Jan.	3.20
180-239 days	3.28	Feb.	3.20
240-270 days	3.28		
‡ Industrial Paper—Prime			
30- 89 days	3.35%	† Federal Funds Effective Rate	3.13%
90-120 days	3.43		
‡ Discount basis.	*Subject to availability.	† Estimated.	

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross Domestic Product (Current Dollars)*	2nd Q'92	\$ 5,894	\$ 5,840	\$ 5,658
Gross Domestic Product (1987 Dollars)*	2nd Q'92	\$ 4,890	\$ 4,874	\$ 4,817
Percent Change, Annual Rate	2nd Q'92	1.4	2.9	1.7
Change in Consumer Prices*	Jul '92 n	1.2%	3.6%	1.2%
Change in CHEM Cost of Living Index*	Jul '92 n	1.2%	1.2%	0.0%
Change in Producer Prices*	Jul '92 n	1.2%	2.4%	- 2.4%
Civilian Employment (Thousands of Persons) †	Jul '92	117,772	117,574	116,729
Unemployment as % of Civilian Labor Force †	Jul '92	7.7%	7.8%	6.8%
Personal Income*	Jun '92	\$ 5,024	\$ 5,026	\$ 4,828
Leading Indicators Composite Index (1967=100) †	Jun '92	149.6	149.9	143.9
Industrial Production Index (1977=100) †	Jul '92 n	108.9	108.5r	108.1
Net Change in Consumer Installment Credit †	Jun '92 n	- \$ 1.02	- \$ 0.89r	- \$ 1.62
U.S. Merchandise Trade Balance †	Jun '92 n	- \$ 6.59	- \$ 7.14r	- \$ 3.79
Plant and Equipment Expenditures*	3rd Q'92	\$ 557.5(a)	\$ 558.5(a)	\$ 527.9
Private Housing Starts (Thousands of Units)*	Jul '92 n	1,119	1,151r	1,053
New Construction Expenditures*	Jun '92	\$ 416.9	\$ 423.4	\$ 398.2
Total Business Inventories †	Jun '92 n	\$ 833.4	\$ 828.0r	\$ 820.7r
Total Business Sales †	Jun '92 n	\$ 555.6	\$ 546.1r	\$ 534.8r

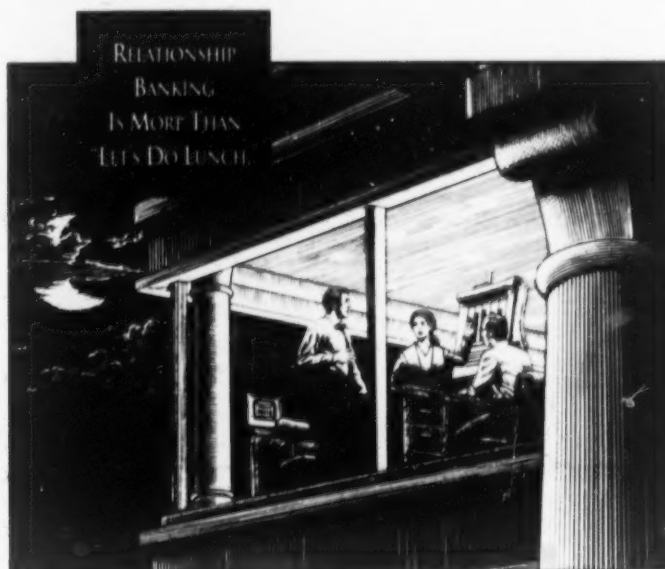
*Seasonally adjusted annual rate.

† Seasonally adjusted.

n-Newly reported figure.

r-Revised.

a-Anticipated.



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